

Report of Financial Examination of  
AMERICAN LIBERTY INSURANCE COMPANY

Provo, Utah  
as of December 31, 2017

NAIC Company Code #12200

Presented to:



State of Utah  
Insurance Department  
Salt Lake City, Utah



## TABLE OF CONTENTS

<b>SCOPE OF THE EXAMINATION.....</b>	<b>2</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS.....</b>	<b>2</b>
Prior Examination.....	2
Current Examination.....	2
<b>COMPANY HISTORY .....</b>	<b>3</b>
Dividends and Capital Contributions.....	3
Mergers and Acquisitions .....	3
<b>MANAGEMENT AND CONTROL.....</b>	<b>3</b>
Directors.....	3
Officers .....	4
Committees .....	4
Holding Company.....	4
Affiliated Agreements.....	5
<b>TERRITORY AND PLAN OF OPERATION .....</b>	<b>6</b>
<b>REINSURANCE.....</b>	<b>6</b>
Ceded .....	6
Excess of Loss .....	7
Quota Share.....	7
Assumed.....	8
<b>FINANCIAL STATEMENTS .....</b>	<b>8</b>
<b>ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS .....</b>	<b>13</b>
<b>COMMENTS ON FINANCIAL STATEMENT ITEMS.....</b>	<b>13</b>
<b>SUBSEQUENT EVENTS.....</b>	<b>13</b>
<b>ACKNOWLEDGEMENT .....</b>	<b>14</b>

May 3, 2019

Honorable Todd E. Kiser, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with Utah Code §31A-2-204(7)(a), and the rules, regulations promulgated by the National Association of Insurance Commissioners (NAIC), an examination of the financial condition and business affairs has been conducted of:

American Liberty Insurance Company  
Provo, Utah

Hereinafter referred to as the "Company."

The following report of examination is respectfully submitted.

## **SCOPE OF THE EXAMINATION**

The last full-scope financial examination of the Company, by representatives of the Utah Insurance Department (“Department”), was for the period January 1, 2010 through December 31, 2013. This examination covers the period of January 1, 2014 through December 31, 2017, including any material transactions and/or events occurring subsequent to and noted during the examination. The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code§31A-2-204(7)(a) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within this examination report but separately communicated to other state insurance regulators and/or the Company.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

### **PRIOR EXAMINATION**

There were no significant unresolved findings from the prior full-scope examination.

### **CURRENT EXAMINATION**

There were no significant findings and recommendations for inclusion in this report.

## COMPANY HISTORY

The Company was incorporated on May 5, 2004, as a wholly owned subsidiary of ALIC Holding Company, Inc. It is a mono-line writer of workers compensation insurance and is currently licensed in Utah and Arizona. The Company markets primarily via independent agents.

Effective January 1, 2017, Benchmark Holding Company (“BHC”) acquired 75% of the Company’s shares of ownership. Effective March 31, 2019, BHC acquired the remaining 25% of the Company. The ultimate controlling person of this new holding company system is Andrew O’Brien.

There were no changes made to the Articles and Bylaws as a result of the acquisition.

### Dividends and Capital Contributions

The Company received capital contributions in the amount of \$2,500,000, in 2016 as part of the acquisition.

The Company neither declared nor paid any dividends during the period of the examination.

### Mergers and Acquisitions

BHC purchased 75% of the outstanding shares of the Company effective January 1, 2017. BHC completed the purchase of the remaining 25% of the Company as of March 31, 2019.

## MANAGEMENT AND CONTROL

### Directors

The Company’s bylaws indicated that the number of Directors may not be less than two (2) or more than twelve (12).

The following individuals served as Directors of the Company as of December 31, 2017:

<b>Name and Location</b>	<b>Title and Principal Occupation</b>
Andrew M. O’Brien Long Lake, MN	President & CEO Trean Corporation
Julie A. Baron Edina, MN	CFO Trean Corporation
Truman B. Child Lindon, UT	President American Liberty Insurance Company
Stuart B. Worthington Spanish Fork, UT	Vice President American Liberty Insurance Company

**Officers**

The Company's bylaws provide for officers to consist of a Chairman, a CEO, a President, one or more Vice Presidents, a Secretary, and a Treasurer each of whom shall be elected by the board. The same person shall not occupy the offices of President and Secretary. The officers of the Company as of December 31, 2017, were as follows:

<b>Name</b>	<b>Title</b>
Truman B. Child Lindon, UT	President
Steven C. Novak Plymouth, MN	Secretary
Julie A. Baron Edina, MN	Treasurer
Stuart B. Worthington Spanish Fork, UT	Vice President

**Committees**

The Company had committees organized for the first two years of the examination period. Once the Company was purchased, the board has acted in all affairs pertaining to the Company. This is in compliance with Utah Code §31A-5-407 (4), because Andrew O'Brien controls over 50% of the Company's shares.

**Holding Company**

The Company is part of a holding company system, with Andrew O'Brien as the ultimate controlling person. BHC controls 100% of shares of the Company. The holding company organization chart is illustrated below:



Claims Services Agreement with S&C Claims Services, Inc. ("S&C")

Under this agreement, S&C provides all of the necessary claims handling functions for the Company. For this service, the Company pays a fee equal to 4.0% of gross collected premium. For the year ended December 31, 2017, this amounted to \$658,524.

Quota Share Reinsurance Agreement with Benchmark Insurance Company ("BIC")

Under this agreement, BIC assumes 100% of the net liability for the business written by the Company. The ceding commission under the quota share will be equal to the Company's direct expenses. BIC will retain the direct written premium less paid losses, as consideration for the reinsurance coverage provided.

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2017, the Company was licensed to write business in the states of Utah and Arizona. It is a mono-line writer of workers compensation insurance. The Company markets primarily via independent agents.

Subsequent to the examination period, the Company has also obtained Certificates of Authority to sell Workers Compensation insurance in the states of Alabama, Arkansas, Indiana, Kentucky, Missouri, New Mexico and Pennsylvania.

**REINSURANCE**

**Ceded**

The Company had both excess of loss and quota share reinsurance agreements in place during the examination period. For all of these agreements, the Company used an affiliate, Trean Reinsurance Services, as an intermediary.



**Excess of Loss**

Layer	Term Year	Limit	Reinsurers	Percentage
First	5/1/16 – 4/30/17	\$4,000,000 excess of \$1,000,000	Lloyd's Amlin Lloyd's Chaucer Markel Global Insurance Company	11.25% 3.75% 60.00%
Second	5/1/16 – 4/30/17	\$5,000,000 excess of \$5,000,000	XL Reinsurance America Inc. Markel Global Insurance Company Arch Re	7.5% 75.00% 17.50%
Third	5/1/16 – 4/30/17	\$10,000,000 excess of \$10,000,000	Lloyd's XL Reinsurance America Inc. Markel Global Insurance Company Arch Re	42.50% 30.00% 7.50% 20.00%
First	5/1/17 – 4/30/18	\$3,000,000 excess of \$2,000,000	Markel Global Insurance Company Safety National Casualty Corporation BGS Services	70.00% 20.00% 10.00%
Second	5/1/17 – 4/30/18	\$5,000,000 excess of \$5,000,000	Markel Global Insurance Company Arch Re XL Reinsurance America Inc.	75.00% 17.50% 7.5%
Third	5/1/17 – 4/30/18	\$10,000,000 excess of \$10,000,000	Lloyd's XL Reinsurance America Inc. Markel Global Insurance Company Arch Re	37.50% 25.00% 7.50% 20.00%

**Quota Share**

Term Year	Limit	Reinsurers	Percentage
1/1/17 – 12/31/17	25% net liability not to exceed \$500,000 per occurrence	First Insurance Company of Oklahoma	25.00%
1/1/17 – 12/31/17	50% net liability	Greenlight Reinsurance, Ltd.	50.00%

Subsequent to the examination period, the Company entered into a 100% quota share reinsurance agreement with affiliate, BIC.

Term Year	Limit	Reinsurer	Percentage
1/1/19 – 12/31/19	100% of net liability	Benchmark Insurance Company	100.00%

**Assumed**

The Company did not have any assumed reinsurance agreement during the examination period.

**FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2017. The filing was amended by the Company to reflect a difference in the reserve calculation between the external auditor and the Company's opining actuary. This was not an examination adjustment.

The accompanying ANALYSIS ON CHANGES IN FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Please note that failure of any of the following items to add to the totals shown is due to rounding.

**American Liberty Insurance Company**  
**Balance Sheet (Assets)**  
**December 31, 2017**

	<b>Net Admitted Assets</b>
Bonds	\$10,782,616
Cash	2,063,299
Cash Equivalents	1,779,375
Short-Term Investments	99,787
Subtotals, cash and invested assets	<b>\$14,725,076</b>
Investment income due and accrued	83,231
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,247,160
Reinsurance: Amounts recoverable from insurers	15,434
Net deferred tax asset	197,196
Receivables from parent, subsidiaries and affiliates	11,000
Health care and other amounts receivable	20,000
<b>Total assets</b>	<b>\$19,299,097</b>

**American Liberty Insurance Company**  
**Balance Sheet (Liabilities, Surplus, and Other Funds)**  
**December 31, 2017**

	<b>2017</b>
<b>Liabilities</b>	
Losses	\$6,301,551
Loss adjustment expenses	1,659,170
Commissions payable, contingent commissions and other similar changes	696,667
Other expenses	37,920
Taxes, licenses and fees	297,626
Current federal and foreign income taxes	326,228
Unearned premiums	870,822
Advance premium	48,247
Ceded reinsurance premiums payable	3,117,231
Funds held by company under reinsurance treaties	1,529,607
Amounts withheld or retained by company for account of others	567,480
Payable to parent, subsidiaries and affiliates	323,571
Total liabilities	<b>\$15,776,120</b>
<b>Surplus</b>	
Common capital stock	\$1,204,472
Gross paid in and contributed surplus	5,508,121
Unassigned funds (surplus)	(3,189,616)
Total capital and surplus	<b>\$3,522,977</b>
<b>Total Liabilities, Surplus, and Other Funds</b>	<b>\$19,299,097</b>

**American Liberty Insurance Company**  
**Statement of Income**  
**December 31, 2017**

	2017
<b>Underwriting Income</b>	
Premiums Earned	\$6,554,039
Losses incurred	(2,824,548)
Loss adjustment expenses incurred	(1,344,839)
Other underwriting expenses incurred	(1,435,059)
Total underwriting deductions	(5,604,446)
<b>Net underwriting gain (loss) (1)</b>	<b>\$949,593</b>
<b>Investment Income</b>	
Net investment income earned	\$90,598
Net realized capital gains (losses)	(2,123)
<b>Net investment gain (loss) (2)</b>	<b>\$88,474</b>
<b>Other Income</b>	
Finance and service charges not included in premiums	\$25,129
<b>Total other income (3)</b>	<b>\$25,129</b>
<b>Net income after dividends to policyholders (1 + 2 + 3)</b>	<b>\$1,063,197</b>
Federal and foreign income taxes incurred	(326,228)
<b>Net income (loss)</b>	<b>\$736,969</b>

**American Liberty Insurance Company**  
**Capital and Surplus**  
**December 31, 2017**

<b>Capital and Surplus Account</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Surplus as regards policyholders	\$2,663,180	\$1,632,705	\$2,188,867	\$2,087,882
Net income	736,969	(1,636,845)	(620,752)	(99,996)
Change in net unrealized gains or (losses)	0	141,132	(36,023)	(833)
Change in net deferred income tax	(1,568,966)	583,068	223,311	113,686
Change in non-admitted assets	1,691,794	(582,214)	(222,698)	(112,720)
Capital changes: Paid in	0	0	100,000	0
Capital changes: Transferred to surplus	0	0	91,972	0
Surplus adjustments: Paid in	0	2,525,334	0	200,848
Surplus adjustments: Transferred from capital	0	0	(91,972)	0
Change in surplus as regards of policyholders	859,797	1,030,475	(556,162)	100,985
<b>Surplus as regards policyholders</b>	<b>\$3,522,977</b>	<b>\$2,663,180</b>	<b>\$1,632,705</b>	<b>\$2,188,867</b>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No financial adjustments were made to surplus as a result of the examination.

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

The Company's capital and surplus in the amount of \$3,522,977 exceeded the authorized control level risk-based capital of \$1,312,189 as of December 31, 2017.

## **SUBSEQUENT EVENTS**

In addition to the 2 states, Utah and Arizona, that the Company was writing business in as of the examination date, in 2018, the Company has also obtained Certificates of Authority to sell Workers Compensation insurance in the states of Alabama, Arkansas, Indiana, Kentucky, Missouri, New Mexico and Pennsylvania.

In January of 2019, the Company entered into a quota share reinsurance agreement with an affiliate, BIC. (see REINSURANCE)

In March of 2019, BHC purchased the remaining 25% of the Company's outstanding shares, in exchange for \$1,154,763. (see COMPANY HISTORY)

In March of 2019, BIC purchased four (4) shares of the Company's preferred stock for \$400,000.

In May of 2019, the Company received the BHC's group rating of A (stable) from A.M. Best.

## ACKNOWLEDGEMENT

Joseph W. Detrick, CFE, CPA, CISA, AES, of Jennan Enterprises LLC, reviewed the Company's Information Systems. Allan R. Becker, FCAS, MAAA, of INS Regulatory Insurance Services, Inc., reviewed the actuarial reserving and reinsurance portion of the examination. John R. Pedrick, FCAS, MAAA, of INS Regulatory Insurance Services, Inc., reviewed the actuarial pricing portion of the examination. Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, Utah Insurance Department, supervised the examination. All join in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,



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D. Shane Sadler, MPA, CFE, SPIR  
Examiner-In-Charge  
Utah Insurance Department